

The Next Austin Bust

Will it be bad? Can we be ready? Or should we not care?

By Mike Clark-Madison, Fri., March 8, 2019



Welcome to Austin! It hasn't always been like this. Will it always be like this?

The younger folks among you may just remember what it was like when Austin had a bona fide bust. It's been a while!

As the world at large has eagerly learned – not always to our advantage – Austin was barely dented by the Great Recession of a decade ago, continuing to grow in population throughout and recovering all of its employment and GDP losses by 2011, without any fundamental change in our economic trajectory. “We were one of the last cities in and one of the first cities out,” says Mayor Steve Adler. “But markets move in cycles, so it is just a question of when, not whether, this all changes.”

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Boomers and Gen X-ers here remember not only the tense turn of the century, but also the shattering mid-Eighties energy bust that left Downtown vacant and left behind the ashes from which today's hipster-tech Austin arose. (For many of us, that was the Austin we moved to.) Even as Austin continues its seemingly perpetual forward motion, we know it's stopped before. What if it does? Will it be bad? Can we be ready? Or should we not care? And if we don't, is somebody else caring on our behalf?

The West Coast Model (F'in Condos)

Many of us have spent more than a decade listening to each other grumble in bars, “Who's gonna live in those f'in condos?” only to watch someone, not you or me, always show up to live in those f'in condos. On average, 104 people have moved to the Austin metro area each and every day since 2010 – more than double our “natural increase” of births over deaths. That migration, most of which is from elsewhere in the U.S. rather than from overseas (as is the case on the coasts), has piled up over that near-decade to now equal more than one in eight Central Texans, the highest share of newbies of any Top 50 U.S. metro.

Austinites are now numb to these stats and bored by the search for a reversion to the mean. Someone, someday, will build that one residential tower too many and be left holding the bag, but it's not happening soon, so we can talk about something else. However, *when* the next bust may burst is a big deal for real estate actors – ordinary buyers and sellers as well as builders and lenders who are trying to move money now – and that industry controls a lot of mindshare Austin dedicates to its “economy.”

Home sales and median prices have reached record highs for eight years in a row, and even a slight slowing of that growth rate, as happened in January, is termed by the Austin Board of Realtors a “normalizing of the market,” which calms the nerves of those who fear we're in a bubble that awaits popping. In a town where half of us rent, the reflexive equation of “prosperity” with “home sales” can seem grating as well as distorting, but the city of Austin proper makes up only 43% of the population – and, in the last year, only 23% of the growth – of the metropolitan region. For every one of those f'in condos, dozens of single-family homes (and, to be fair, plenty of apartments) now lie at the edges of commuting range and within the price range of Austinites whose jobs continue to cluster in the urban core. Ten ZIP codes in Austin – mostly lined up along MoPac – contain more than half of the city's employment.

That spatial mismatch of jobs and housing, which has been true for a great while and persists despite Austin's furtive yet fitful efforts to plan for another model of growth, sets the contours for one scenario of what the next bust might look like. Or, if you are of a more pessimistic disposition, the bust that's already happening. We can call it the West Coast model, in which Austin becomes an overpriced enclave of “livability” – what city demographer Ryan Robinson dubs “Monaco on the Colorado” that's “way too expensive for most regular folk. Our housing may have already become too expensive.”

Thus the deconcentration of the Central Texas population, which Robinson sees accelerating, and eventually with it, employment – not necessarily of high-tech professional jobs, but of the non-creative-class jobs that here, as elsewhere, make up the larger share of employment. As people move farther out, they bring with them more H-E-Bs, more health care centers, more small businesses of all kinds, more manufacturing and logistics jobs that need space and mobility, and eventually even more government offices, despite the state's current interest (after decades of apathy) in densifying the Capitol Complex.

What's left in the city are “very high-income professionals, mostly from tech and medicine, [who] will continue to vote for Central Austin locations with their wallets,” says UT professor Michael Oden, who takes pains to describe his views as “wild speculation, since I don't think we can predict anything, especially in the current political environment.” Regionally, you'll see “sprawl at *Mad Max* levels, while the upper 10% all drive around the city of Austin in their electric vehicles.”

Producing and Consuming Culture

Again, many of you reading this will say this is already happening, and you hate it. But not enough yet to want to, or feel able to, pick up and move elsewhere, and not enough to discourage other people, of all income levels, from coming in to take your place, and take up those housing units in the outer bands of Central Texas.

“I don't think people appreciate to what extent attitudes around land use enable Austin,” says Brian Kelsey, former economic development director at the Capital Area Council of Governments, now in a similar role with the city of Nashville – one of Austin's up-and-coming competitors for It City. “Opposition to home construction in much of the urban core in Austin is today no different than what you see in many coastal cities. But sprawling home construction in three directions from Austin sustains the model – the pressure on working-class people in Austin, while increasing, is still far lower than in many of Austin's peer markets with similar tech footprints.”

That is to say, while people tremble, and not without cause, at the thought of Austin becoming Seattle or San Francisco, that fate is a long way away as long as people decide, “Hey, it's not so bad to live in Elgin or Taylor or Liberty Hill.” And Central Austin townies, for whom moving to those places equates to being “priced out of Austin” with much trauma and resentment, do tend to underestimate the degree to which incoming migrants do find that equation perfectly tenable. Our regional housing costs are way lower than on the West Coast, and job opportunities, even factoring in the commute, are greater than what's on offer in the Midwest and Northeast. (Our real peer-city competition at this point is among metros in the South and the Mountain West.)

So by the numbers, Central Texas can continue to perform at or beyond the pace of most U.S. metros, even while *qualitatively* we wring our hands and feel a sense of loss for what we wanted Austin to always be – a relaxed, highly amenable yet highly accessible venue for creative ways of life, the identity that allowed an institution like SXSW to grow and thrive here in flyover country.

“That's our most immediate threat,” says Adler. “We become increasingly more expensive and lose the diversity we have, the artists, and the soul of who we are.”

“Once we lose that, we become a place where we consume culture instead of creating it, and people will want to live in Nashville or Denver or Raleigh/Durham or wherever,” the mayor continues. “And we stay economically strong because the companies we have here are here because the people they want to work for them want to live here. If they want to live somewhere else, that's a problem.”

Within our urban sphere, the centrifugal forces pulling Central Texans apart geographically are indexed to demographic divisions of income, ethnicity, and class, which makes for turbulent conversations about gentrification and displacement among many Austinites who feel like they're already living through a bust. A metro area that becomes more disturbingly segregated and balkanized is, at the very least, off-brand for the Austin we want to be and that we've promised the world we are.

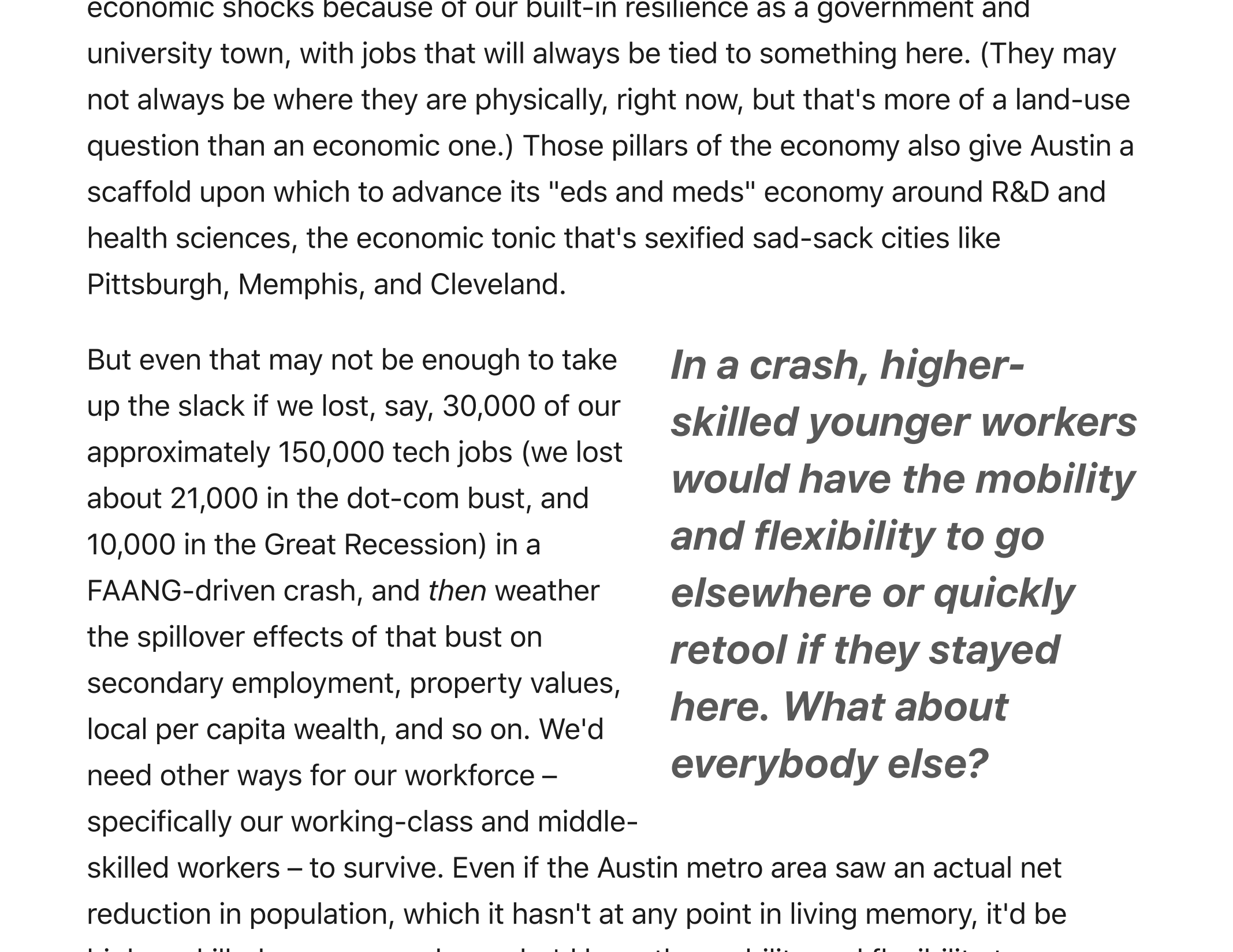
“We're one badass city with a lot of potential, and we're the ones messing it up.” – Natasha Harper-Madison

“We're not really multiple communities, and we have to stop separating ourselves into smaller cities by geography or race or socioeconomic status,” says City Council Member Natasha Harper-Madison. “That's not the environment in which people here *now* are doing cool community-based and cultural work.” The new African-American representative of East Austin's District 1 points to up-and-coming businesses and civic efforts that are re-energizing a still-diverse Eastside. “We need to collaborate so we can inspire people, instead of using language that centers what they lack, which disempowers them. We're one badass city with a lot of potential, and we're the ones messing it up.”

The Detroit Model: Broken FAANGs

A more long-shot risk from Austin's perspective, although one that may paradoxically be less distant in a global view, is that the companies Adler references, brought and kept here by our sexy, sticky quality of life, suffer their own sort of systemic shock – that is, a collapse of the tech titans. We can view that as the Detroit scenario, where the jobs go away and stay away, thus dissolving all of the secondary employment that's made possible in Austin when, for example, Google snaps its fingers and leases out an entire new Downtown office tower.

That's the kind of dislocation we saw during the dot-com bust, and observers like Robinson (and this reporter) concluded at that time that those buffalo weren't coming back. And in a sense, they didn't – Austin's positioning as a tech manufacturing center (particularly the semiconductor sector) and even in software development is not quite the same as it was in 1999. But overall tech-sector employment has clearly recovered – the Austin Chamber of Commerce in 2018 estimated we have about 6,500 tech employers in the metro area, a number that's grown 35% just in this decade.



So forecasters aren't sure what would happen to Austin now should the tech industry – and particularly the bubbly world of the FAANGs (Facebook, Amazon, Apple, Netflix, Google) and their attendant ecosystems – hit the books, once investors decide that maybe, say, Apple isn't really worth a trillion dollars. “There is a lot of growth momentum here in Austin that will likely last another few years,” says Oden. “But a profound tech bust is possible because of intense saturation and wild overvaluation of tech company stocks. How many devices, apps, and social media streams can individuals absorb?” He adds that “this could shift the growth trajectory of the region, if there is no new product cycle we could jump to – like we did from tech manufacturing to tech services after the 2001-02 bust.”

“In a crash, higher-skilled younger workers would have the mobility and flexibility to go elsewhere or quickly retool if they stayed here. What about everybody else?”

This is the point in the narrative where you hear the word “resilience.” It's true that Austin's been less buffeted, and quicker to recover, from this century's economic shocks because of our built-in resilience as a government and university town, with jobs that will always be tied to something here. (They may not always be where they are physically, right now, but that's more of a land-use question than an economic one.) Those pillars of the economy also give Austin a scaffold upon which to advance its “eds and meds” economy around R&D and health sciences, the economic tonic that's sexified sad-sack cities like Pittsburgh, Memphis, and Cleveland.

But even that may not be enough to take up the slack if we lost, say, 30,000 of our approximately 150,000 tech jobs (we lost about 21,000 in the dot-com bust, and 10,000 in the Great Recession) in a FAANG-driven crash, and *then* weather the spillover effects of that bust on secondary employment, property values, local per capita wealth, and so on. We'd need other ways for our workforce – specifically our working-class and middle-skilled workers – to survive. Even if the Austin metro area saw an actual net reduction in population, which it hasn't at any point in living memory, it'd be higher-skilled younger workers who'd have the mobility and flexibility to go elsewhere, or to quickly retool to other employment (such as in eds-and-meds enterprises) if they stayed here. What about everybody else?

Given that this scenario, while low-probability, could happen quite suddenly if it does, advocates for the interests of non-tech Austin feel some urgency. “Since the Great Recession, working people aren't earning what they should be based on their productivity, nationally,” says Council Member Greg Casar, who represents District 4, the lowest-income of Austin's 10 Council districts. “It's better than being in a recession, but the benefits and gains are going to owners and stockholders who can duck and cover and stay warm if there's another crash, while working people are left out to dry. In District 4, over 20% of our workers are employed in construction; in District 2 [Southeast Austin], it's hospitality and services. We'll take an enormous hit.”

Adler touts the city's commitment to workforce development as an essential response to that incipient crisis. “We have to solve for that question,” he says, and “do a better job with developing internships and apprenticeships and co-investing with the private sector.” (Adler and Travis County Judge Sarah Eckhardt partnered in 2017 to promote a “Middle Skills Initiative” to increase job training opportunities in industries such as health care, as part of the recent regional workforce plan.)

Both Adler and Casar also point to the city's current flood of infrastructure investment – the 2016 mobility bond, the school district's 2017 bond, and the city package passed in November, which between them total more than \$2.5 billion in spending – as “something we need to leverage as a skilled labor training program,” the mayor says. Casar adds in a prospective transit bond in 2020 and the upcoming construction of a new terminal at the airport, just last week opened its latest and final expansion to the existing terminal. “We can accelerate these construction and engineering projects to create good living-wage jobs with union and labor protections for all these workers,” he says. “We should take advantage of that opportunity now.”

Smooth, Supple, Bouncy: Resilience

“Resilience” means more than just our economic suppleness. We also now worry, more than before, about how well our physical city is hardened or can bounce back, with each passing dire warning and visible precursor of major infrastructure dysfunction or climate disruption.

As an obvious example, we've zealously stewarded our water supply with controversial long-term investments, buying decades' worth of rights to Highland Lakes water back in 1999 for the then-astounding sum of \$100 million (paid with an actual check) and then building what is now the Handcox Water Treatment Plant to treat it. Yet just within the last six months, our water has twice been unfit to drink, whether too dirty due to unprecipitated upstream flooding, or too malodorous due to infestation of our water supply by [an invasive species whose range has extended southward](#).

Austin has made a big, big deal about being a leader in the response to climate change, which in turn might contribute to our economic resilience in some future Green New Deal world. That's not the same, though, as working and worrying over our own exposure to direct and indirect environmental threats. While Austin is, on this score, in a much better place than, say, Houston – which has decades of catastrophic flooding to look forward to – that exposure is greater than zero.

Adler identifies the water supply – both in quantity and quality – as “an Achilles' heel of our resilience,” for which the city's recently adopted Water Forward plan helps to provide answers. He also frets, as he has his entire term, about our transportation infrastructure – not only because traffic is a constant complaint among the locals, but in light of the climate-driven need to upturn the single-driver model. “We're encouraging new mobility technologies and experimentation and innovation even when it's disruptive,” he says, “because in the long term it might help us survive. Getting before the voters in November 2020 to do high-capacity transit is imperative.”

The always-intermingled debate over mobility, housing affordability, and reforming our land use code are influenced by the signals sent by the market-driven here and now (Who's going to live in all these f'in condos? What are you going to do about this traffic?), but really are charting a course for a more resilient city decades hence. “That's why we need to actually get the code done, and the need for transit is inescapable,” Adler says.

“Right now, with the emphasis we're putting on affordability and diversity and equity – we're pushing harder than many cities are, and on sustainability, we really are an international leader,” he continues. “I think things are really going well, and we have a huge measure of opportunity, but it's not accessible to everybody and we have to be focused on increasing that access in everything we do. We're the cool city right now, but there's nothing sadder than being the city that used to be the cool city.”